

December 13, 2001

TO: State Directors  
Rural Development

ATTENTION: Rural Housing Program Directors  
Guaranteed Rural Housing Specialists  
Rural Development Managers  
Community Development Managers

FROM: David J. Villano (*signed by William Toney for David Villano*)  
Deputy Administrator  
Single Family Housing

SUBJECT: RD AN No. 3683 (1980-D) issued November 13, 2001  
Single Family Housing Guaranteed Loan Program (SFHGLP)  
Acceptable Alternative Documentation to Verify the Applicant's  
Employment Income.

We have received several questions about the instructions and requirements of RD AN No. 3683 (1980-D). The attachment to this letter answers the questions that we have received.

State Offices with additional questions regarding AN No. 3683 or this letter should contact Robert E. Keyes or Joaquin Tremols by calling (202) 720-1452 or by emailing to [rkeyes@rdmail.rural.usda.gov](mailto:rkeyes@rdmail.rural.usda.gov) or [jtremols@rdmail.rural.usda.gov](mailto:jtremols@rdmail.rural.usda.gov).

Question #1 Have we reduced the amount of employment and income information that the lender must obtain to underwrite a loan guaranteed under the SFHGLP?

Answer No. A lender that chooses to use alternative documentation must continue to:

- obtain the same detailed employment and income information that is provided by the employer in Form 1910-5, "Request for Verification of Employment" or equivalent industry form (VOE form).
- obtain documentation sufficient to provide a complete picture of the applicant's financial situation, and;
- apply the same stable and dependable income qualification criteria regardless of the type of income verification documentation used.

Question #2 Previously, we told lenders that they should obtain copies of the applicant's three most recent paycheck stubs in addition to the employment verification form. Can lenders using VOE forms now ask for only one paycheck stub?

Answer Yes. We now believe that in most cases, one paycheck stub is sufficient to check for consistency with the VOE form. Also, this is consistent with industry practices.

Question #3 Does that mean that one paycheck stub is adequate even if the lender uses alternative documentation?

Answer No. If the lender is using alternative documentation, our alternative documentation standards require the lender to obtain paycheck stubs or payroll earnings statements covering the most recent 30-day period. For most borrowers, this will require 2-4 paycheck stubs. Paycheck stubs covering the most recent 30-day time period allow the lender to properly underwrite the loan application using alternative documentation. Also, this is consistent with industry practices.

Question #4 Suppose the applicant's payroll earnings statement does not contain all of the information required by AN No. 3683; e.g., gross year-to-date earnings. Does that mean the lender cannot use alternative documentation for this loan?

Answer Not necessarily. The lender may be able to obtain this required information in the telephone verification with the applicant's employer.

Question #5 Some employers will not release certain detailed information over the telephone, for example, amount of current base pay and other income. Does that mean the lender cannot use alternative documentation for this loan?

Answer Not necessarily. The lender may be able to obtain this required information in the paycheck stubs or payroll earnings statements.

Question #6 If the W-2 forms and payroll earnings statements provide all information normally obtained using the VOE form, does the lender still need to call the employer?

Answer Yes. Remember that the lender must always contact the applicant's current employer, either by telephone (alternative documentation) or using the VOE form (standard documentation).

Question #7 Some employers will only provide minimum information over the telephone. What is the minimum amount of information that must be substantiated in the telephone verification?

Answer The minimum amount of information that must be substantiated in the telephone verification is a confirmation that the company employs the applicant. If the employer will not confirm employment, then the VOE form must be used.

If the employer will confirm employment, but will not answer all of the lender's questions, the lender can still accept the telephone call as a confirmation of employment provided:

1. the applicant's payroll earnings statement meets our requirements and provides detailed information about the applicant's earnings, and
2. the lender documents the employer's unwillingness to provide all of the requested information. The lender's documentation must show:
  - ✓ Date of contact
  - ✓ Applicant's name
  - ✓ Employer's name and phone number
  - ✓ Name and title of the person that in the employer's office who confirmed the applicant's employment
  - ✓ Name of lender's employee that contacted the employer
  - ✓ The employer's responses to the lender's questions about the borrower's current employment, probability of continued employment, borrower's income, and probability that any overtime, bonus, or commissions income is likely to continue.

Question #8      Some employers leave certain portions of the VOE form blank; e.g., item #11 relating to probability of continued employment and item #13 relating to the continuance of overtime or bonus. What if the employer will not provide this information, either in writing or over the telephone?

Answer            The verification may still be valid, even with certain information omitted. The lender must underwrite the loan application without this information and be able to make the determination that the applicant has adequate and dependable income. The lender must disapprove the application if the applicant's loan repayment ability cannot be determined or is not acceptable.

Question #9      We require that VOE forms be completed within 120 days (180 days for proposed new construction) prior to the time the Conditional Commitment is issued. However, the telephone verification must be made within 120 days of closing. Why is there a difference?

Answer            We have not changed the requirements for standard documentation such as the VOE form.

Lenders that choose to use alternative documentation must ensure that the telephone verification is made prior to the submission of Form RD 1980-21, "Request for Single Family Housing Loan Guarantee," and if necessary, again within 120 days of closing. If closing occurs more than 120 days from the time the original telephone verification was made, then the lender must make a second telephone call to ensure that the applicant is still employed. (Many lenders have already adopted this practice in order to support the certification they must make when requesting the Loan Note Guarantee.)

Question #10    Can the lender substitute copies of the applicant's tax returns for the W2 forms?

Answer            Not unless the borrower is self-employed. The tax return may not provide certain information that is generally needed by the lender to underwrite the loan (for example, name of employer).

Question #11 Do you have any suggestions for lenders regarding how to successfully use alternative documentation?

Answer

Yes, lenders have shared the following ideas:

- ✓ Use the items on the VOE form as a “checklist” to ensure that all of the required information has been obtained.
- ✓ Develop and use a standard telephone confirmation form to ensure that all required information is collected.
- ✓ Independently confirm (by using the telephone book, calling directory assistance, etc.) the employer’s telephone number. Not only is this practice effective in guarding against misrepresentation, the lender will often have more success by directly contacting the employer’s payroll or human resources office (as compared to the applicant’s supervisor.)
- ✓ During the telephone call to the employer, offer to fax the employer a copy of the form signed by the applicant authorizing the employer to release information to the lender.
- ✓ If the employer will not answer all of the lender’s questions, ask if they will confirm (rather than release) information that the applicant has already provided to the lender. Offer to fax the employer a copy of the payroll earnings statement to confirm its authenticity.

Question #12 Will RHS permit a lender to use income and employment verification reports from a third-party verification service as an alternative to standard employment and income documentation?

Answer

Yes, §1980.309(f) allows lenders to use other institutions in carrying out their responsibility to obtain verification of an applicant’s employment and income.

We know of several companies that obtain information directly from participating employers in order to provide lenders with automated employment and income verifications.

In order to be acceptable to RHS, the automated verification must provide essentially the same detailed employment and income information that is normally obtained using the VOE form, including year-to-date and previous year’s pay history. This level of verification is often referred to as a “full verification.”

We have determined that the following three companies are capable of providing acceptable “full verifications” to lenders.

- ✓ The Work Number®. ([www.theworknumber.com](http://www.theworknumber.com))
- ✓ VeriFacts Employment Verification Service (<http://www.verifacts.frickco.com>)
- ✓ Jon-Jay Associates, Inc. (<http://www.jonjay.com/jonjay/evs.html>)